

THE CENTRAL VALLEY FLOOD PROTECTION BOARD – August 26, 2010

Alejandra Lopez
Action Item No. 9 (S)

SUBJECT:

The Board is requested to approve and delegate to the Board president and secretary the authority to execute the negotiated Oil and Gas Lease (Subsurface) with Venoco, Inc.

LOCATION:

The proposed Lease area lies within Sacramento and San Joaquin Drainage District (SSJDD), acting by and through the Central Valley Flood Protection Board (Board), property located within portion of Section 6, Township 15 North, Range 1 East, MDB&M, lying East of Butte Slough, and containing 175 acres, more or less in Sutter County, as shown on the attached maps marked Exhibit A.

BACKGROUND:

Staff received a letter from Venoco, Inc., nominating approximately 175 acres, more or less, for lease of land owned by SSJDD. The primary term of the lease is five (5) years at a rental amount of forty-dollars (\$40) per mineral acre. The rental amount is a delayed annual rent of \$7000 (\$40 x 175 acres) (rent will only be paid until royalty becomes available). A landowner royalty figure in the amount of one-fifth (1/5th)/20 percent (20%) and will continue thereafter as long as the lease is producing.

In accordance with Interagency Agreement Number 4600008081 between Central Valley Flood Protection Board and California State Land Commission (CLSC), Staff submitted a request for review of the letter of nomination. CLSC recommended that the Board determine if it wishes to enter into a negotiated subsurface lease or to offer the parcel via public bid based upon the availability of drill sites on the surface of the property. Board staff, Len Marino, Chief Engineer and Division of Engineering staff, Alejandra Lopez, Right of Way Agent, visited the site with Venoco, Inc. staff and determined there are no drill sites on the surface of the property. Since SSJDD's property is located in a prospect area which is restricted due to Venoco exclusive use of the surrounding lands leased under one gas pool, it was determined that the lease be considered via a negotiated process. SSJDD's property is landlocked by Venoco's pool which restricts the use by other potential operators. Based on the type of lease to be conveyed, the activities will not disrupt the natural vegetation surface of the land.

Jeremy Goldberg, DWR, Office of Chief Counsel has approved the Oil and Gas Lease (Subsurface) for legal form and sufficiency.

REQUEST:

For the Board to approve and delegate to the Board president and secretary the authority to execute the Oil and Gas Lease (Subsurface) with Venoco, Inc. Lease No. 2010-02-CVFPB.

ATTACHMENTS:

- Oil and Gas Lease (Subsurface)
- Exhibit A – Maps

STAFF RECOMMENDATION:

Staff recommends approval and delegation to the Board president and secretary the authority to execute the negotiated Oil and Gas Lease (Subsurface) with Venoco, Inc. Lease No. 2010-02-CVFPB.

Maintenance Yard: Sutter
Feature: Butte Slough
Lease No.: 2010-02-CVFPB
Work Order:

OIL AND GAS LEASE

(Subsurface)

This Lease is entered into this ____ day of _____, 2010, between the SACRAMENTO AND SAN JOAQUIN DRAINAGE DISTRICT, acting by and through The Central Valley Flood Protection Board, State of California, herein called "DISTRICT", and as shown (signature page hereto) herein called "LESSEE". In consideration of the rental and royalty to be paid and the covenants contained in this lease, DISTRICT leases to LESSEE certain land in the County of Sutter, State of California, more particularly shown on the attached Exhibit A, which contain approximately 175 acres, and which will be referred to as the leased lands.

1. **LEASE TERMS.** The term of this lease is for a primary term of five (5) years from the date hereof and so long thereafter as (a) LESSEE is diligently conducting, producing, drilling, deepening, repairing, re-drilling, re-working, plugback or conducting other necessary lease or well maintenance operations on or in the leased land or on lands pooled or unitized therewith; or (b) oil, gas, or other hydrocarbon substances are produced in paying quantities therefrom, or (c) the primary term is extended and drilling operations are deferred by agreement of the parties. However, the total term of this lease, including the primary term, shall not exceed forty (40) years.

In the event the primary term of this lease is extended by written agreement of the parties, DISTRICT shall have the option of reestablishing a new rental rate and/or percentage royalty rate at the end of the three-year term. LESSEE will be given at least thirty (30) days prior written notice of any modification for the annual rental or royalty rates.

2. **RENTAL.** LESSEE has paid to STATE, upon the execution of the Lease rental in the amount of seven thousand dollars (\$7,000) for the first 1 year of the primary term of the Lease. If the Lease is terminated during the primary term of the Lease, there shall be no refund of the rent. Notwithstanding anything herein to the contrary, but subject to paragraph 21, herein, LESSEE shall pay to DISTRICT on each anniversary date of this Lease following the remaining primary term a rental of forty dollars (\$40) per acre based or \$7000 for the total leased lands under this Lease on such anniversary date for the primary term years, in addition to the royalties to be paid pursuant to paragraphs 13 and 14, and shall continue such payments until this lease is terminated.

3. **LESSEE'S RIGHTS AND PRIVILEGES.** LESSEE shall have the exclusive right to prospect for, drill for, produce and remove only oil, gas, and associated hydrocarbon substances from the leased land during the lease term.

LESSEE shall have the right in ingress to and egress from the leased land and the privilege, subject to approval from DISTRICT, to construct, use, maintain, erect, repair,

replace, and remove all pipelines, telephone and telegraph lines, tanks, machinery, buildings, and other structures required in carrying on LESSEE'S operations on the leased land. LESSEE also has the privilege, subject to approval from DISTRICT, to erect, maintain, operate, and remove a plant, with all necessary appurtenances, for the extraction of gasoline from gas produced from the leased land.

This lease does not give LESSEE the privilege or right to store gas within the geological zones underlying the leased land nor any other privilege or right not expressly stated.

Any and all pipelines attached in any manner to wells drilled by LESSEE on the leased land which are constructed through cultivated fields shall be laid below plow depth.

LESSEE shall fence and sign all sump holes and other excavations made by LESSEE on the leased land to safeguard animals and persons.

LESSEE shall have the right to remove from the leased land all machinery, rigs, pipes, casing, pumping stations, and other property and improvements of every nature belonging to or furnished by or for LESSEE.

LESSEE shall not utilize the surface of the leased land for any purpose without first applying for and obtaining approval from DISTRICT, LESSEE shall file as-built plans with DISTRICT upon completion of any installation.

With prior approval of DISTRICT, LESSEE may conduct geophysical surveys on the leased land.

LESSEE shall comply, at its sole cost and expense, with all valid requirements of all local, State, and federal authorities now in force, or which may hereafter be in force, pertaining to its operations on the leased land.

4. DISTRICT RIGHTS AND RESERVATIONS. This lease is subject to all existing easements, rights of way, leases, permits, and other rights of use. DISTRICT reserves the right to grant additional rights, and LESSEE consents to the granting of any such rights and permits.

This lease is subject to the right of DISTRICT or its authorized representative, without making compensation of any kind to LESSEE, to enter upon the leased land at any time and perform or maintain any and all work DISTRICT may deem necessary for development, reclamation, drainage, or irrigation purposes, including the construction, maintenance, and repair of levees, roads, bridges, pumps, power lines, poles, borrow pits, canals, ditches, and any other structures. LESSEE acknowledges that DISTRICT may make improvements to the flood control system and LESSEE assumes any risk and financial loss therefrom.

LESSEE acknowledges that the leased lands are subject to flood menace and that it shall have no claim at law or in equity against DISTRICT from any loss or injury occasioned by fire, floods, reservoir operations or overflow waters, or the breaking of levees. DISTRICT shall be under no obligation to avoid these risks or to construct or reconstruct any reclamation works or to repair any damage.

The failure of DISTRICT to enforce any provision of this lease shall not constitute a waiver by DISTRICT of that or any other provision.

5. DRILLING OPERATIONS. LESSEE shall commence drilling operations for a well or offset well on the leased land or lands with which the leased land has been pooled or unitized within three (3) years from the date of this lease. The time for commencing drilling operations may be extended up to an additional one (1) year at the discretion of DISTRICT. If oil or gas is not found in paying quantities in the first well, LESSEE shall commence drilling operations for a second well within ninety (90) days after cessation of drilling operations in the first well. Operations shall continue in this manner until oil or gas is found in paying quantities. The minimum drilled depth shall not be less than the stratigraphic depth from which wells are producing on adjacent parcels. If the LESSEE fails to commence such operations before or to prosecute them diligently after the expiration of the drilling term, this lease shall terminate.

6. OIL AND GAS DEVELOPMENT. After discovery of oil and gas in paying quantities in any oil and gas zone on the leased land, wells shall be drilled by LESSEE as rapidly as possible with one (1) drilling string to each commercially productive oil and gas zone, if it is mechanically practicable to do so, as follows:

1. At least one (1) well for the production of oil into each twenty (20) acres, where the bottom of the productive interval of the well is completed for production is at a vertical depth of six thousand (6,000) feet or less.
2. At least one (1) well for the production of oil into each forty (40) acres, where the bottom of the productive interval of the well is completed for production is at a vertical depth greater than six thousand (6,000) feet, and
3. At least one (1) well for the production of gas or gas condensate from any zone which produces only gas or gas condensate into each one hundred sixty (160) acres or fraction thereof, provided that the spacing of gas or gas condensate wells on the leased land shall not be less dense than the spacing of such wells on any adjacent parcel held by LESSEE. No oil or gas well shall be constructed on the surface of the area under this lease.

7. LEASE OPERATIONS. LESSEE'S drilling and producing operations shall be conducted in accordance with good oil field practice. Completed wells shall be operated so long as such wells shall produce oil or gas in paying quantities while this lease is in force on the portion of the leased land on which such wells are situated. All drilling shall conform to any reasonable and lawful conservation program affecting the drilling of wells or the production of oil and/or gas from the leased land to which LESSEE may be subject either voluntarily with approval of DISTRICT or by order of any governmental agency claiming jurisdiction.

8. ENVIRONMENTAL REQUIREMENTS. LESSEE shall abide by the rules, regulations, restrictions, mitigation measures, and all other measures designed to restrict, limit, modify, or minimize the environmental impact of its operations under this lease.

Environmental requirements may be issued by DISTRICT as part of the written approval of submitted work plans. Environmental requirements may include, but are not limited to: (1) specification of a restricted season for drilling or facility construction, and/or (2) designations of sub-areas or zones that are closed to construction or vehicular activity.

Environmental requirements will be specified for the purpose of avoiding or minimizing adverse impacts to rare or endangered species of fish, wildlife, or plants and/or habitats (such as wetlands), in accordance with all applicable State or federal laws.

Environmental requirements issued by DISTRICT shall be in addition to, but shall not necessarily supersede, requirements or regulations issued by other State or federal regulatory agencies, such as the Department of Fish and Game, State Water Quality Control Board, U.S. Army Corps of Engineers, or U.S. Fish and Wildlife Service. In addition, LESSEE shall provide to DISTRICT copies of all written environmental review documentation and permits, waivers, or other instructions issued by these and any other environmental regulatory agencies. DISTRICT reserves the right to review all environmental documentation and permits to ensure the adequacy of environmental compliance for all proposed work activities and to deny permission for any proposed work activity determined not to be in compliance with all applicable environmental laws and regulations.

9. SUBSIDENCE. Upon establishment of a well site, a permanent bench mark will be established by LESSEE to serve as a vertical control for subsidence monitoring. Lessee must also install permanent survey monuments at various locations within the lease area in a grid pattern. The NGVD bench mark location and the grid pattern must have prior written approval from DISTRICT. The monuments will then be surveyed prior to any mineral extraction (including gas) and surveyed on a yearly basis for the life of the lease. LESSEE will promptly transmit the results of the initial and annual surveys to DISTRICT.

The lease may be terminated by DISTRICT with 60 days prior written notice to LESSEE if subsidence occurs, whether based on this surveyor other information.

Subsidence of or related damage to any flood control project facilities that can be directly attributed to LESSEE'S mineral extraction shall be restored to pre-mineral extraction conditions by LESSEE at its sole cost.

10. HAZARDOUS MATERIALS. Hazardous materials are those substances listed in Division 4.5, Chapter 11, Article 4 of Title 22, California Code of Regulations, or those which meet the toxicity, reactivity, corrosivity, or ignitability criteria of Article 3 of the above Code, as well as any other substance which poses a hazard to health or the environment.

Except as necessary for conducting oil and gas exploration and production operations on the leased land in accordance with the terms of this lease and current petroleum technology, the LESSEE shall not use, create, store, or allow such substances on the leased land, nor shall cause or allow the deposit or disposal of any such substances on the leased land. Any use or deposit or disposal of any such substances on the leased land shall be done in accordance with all applicable laws and regulations, and the permitting requirements of all governmental agencies having jurisdiction over such matters.

DISTRICT and its agents or contractors shall have the right at all times to go upon and inspect the leased land and the operations conducted thereon to ensure compliance with the requirements of this provision. Inspection may include taking samples of substances and materials for testing soils and equipment.

If hazardous waste is generated on-site, the facility must be fully permitted by the California Department of Health Services and any other agency having jurisdiction, and LESSEE shall comply with all conditions of the permits.

Breach of any of these terms shall give the DISTRICT authority to terminate this lease and to take any other action which it deems necessary to protect its interests. LESSEE shall be responsible for and bear the entire cost of removal and disposal of hazardous materials or wastes introduced to the leased land in violation of the provisions of this lease during the term of this lease. LESSEE shall also be responsible for any cleanup and decontamination on or off the leased land necessitated by any disposal of hazardous materials or wastes on or from the leased lands. LESSEE shall hold the State and any officer or employee of the State harmless from all responsibility, liability, and claim from damages resulting from the presence or use of hazardous materials on the leased land during the term of the lease.

11. OFFSET OIL AND GAS WELLS. If any well producing only gas and/or gas condensate is within one thousand four hundred eighty-nine (1,489) feet outside the exterior boundary of this lease, or any well producing oil or oil and gas is within five hundred (500) feet outside the exterior boundary of this lease, and is capable of producing oil or gas in paying quantities, and is draining the leased land, LESSEE shall, within ninety (90) days after such well has been completed and put on continuous production, commence drilling operations on the leased land for an offset well unless such well is being or has been drilled. This paragraph shall have no application as to oil and/or gas wells located within the distances stated hereinabove outside the exterior boundary of this lease on the date of this lease.

The surface location of any offset well shall not be within two hundred fifty (250) feet of any levee or four hundred (400) feet of any weir. The refusal of DISTRICT to allow the drilling of any offset well within two hundred fifty (250) feet of any levee or four hundred (400) feet of any weir shall not excuse LESSEE from its obligation to drill an offset well provided DISTRICT makes available a suitable drill site for the drilling of such well. Each such well. Each offset well shall be counted as one of the wells provided for in this lease to be drilled by LESSEE. An offset well for production of oil shall mean a well the midpoint of the producing interval of which is situated in the leased land not more than five hundred (500) feet from the point on the boundary of the lease nearest to the producing interval of the well to be offset. An offset well for production of gas and/or gas condensate shall mean a well the midpoint of the producing interval of which is situated in the leased land not more than one thousand four hundred eighty-nine (1,489) feet from the point on the boundary of the lease nearest to the producing interval of the well to be offset.

12. POOLING. With the consent of DISTRICT and under terms and conditions approved by DISTRICT, LESSEE may pool all or part of the leased lands with other lands held by LESSEE or others for the purpose of operating under a cooperative or unit plan. Drilling operations on and production from lands so pooled or unitized with the leased lands shall be deemed to be drilling operations on and production from the leased lands which are included in the pooled area or unit. If less than all of the leased land is pooled or unitized, this lease shall be severed and shall be considered as separate leases on separately pooled or unitized acreage and on unpooled acreage. Any part of the leased land not pooled shall remain fully subject to the terms of this lease and unaffected by operations or production on the pooled or unitized portion of the leased land, or on acreage pooled or unitized with a portion of the leased land.

13. OIL ROYALTY. LESSEE shall account for and pay to DISTRICT in money as royalty on oil twenty percent (20%) of the current market price of all oil production removed or sold from the leased land. The current market price shall not be less than the highest price posted in the nearest field for oil of like gravity and quality by a company purchasing oil or paying royalties in that field at its posted price or at a price using as one of its components its posted price. No deductions shall be allowed for transportation, dehydration, or other processing of DISTRICT'S royalty share of oil production. Settlement shall be made by LESSEE on or before the twenty-fifth (25th) day of each calendar month for accrued royalties for the second preceding calendar month.

14. GAS ROYALTY. LESSEE shall account for and pay to DISTRICT in money as royalty on gas and products extracted and saved from produced gas twenty percent (20%) of the current market price of all gas and gas products removed or sold from the leased land. The current market price shall not be less than the highest price in the nearest field at which gas and gas products of like quality are being sold in substantial quantities or the exchange value derived by LESSEE from the gas and gas products removed or sold from the leased land. No deductions shall be allowed for transportation, dehydration, or other processing of DISTRICT'S royalty share of production. Settlement shall be made by LESSEE on or before the twenty-fifth (25th) day of each calendar month for accrued royalties for the second preceding calendar month.

15. ROYALTY STATEMENTS. LESSEE shall furnish monthly true royalty statements in whatever form the State prescribes. At a minimum, the statements shall show for the preceding calendar month the amount, gravity, and market price of all oil and the amount and market price of all gas substances removed or sold from the leased lands, and the number of days each well is in production.

16. ROYALTY-FREE USE. LESSEE shall not be required to pay royalty on oil or gas produced by LESSEE from the leased land and used by it in its operations on the leased land to the extent that such use is necessary for such operations. No royalty shall be due DISTRICT for or on account of oil lost through evaporation, leakage, fire, or otherwise, except as such may be due to LESSEE'S acts or negligence.

17. PRORATED PAYMENTS. If DISTRICT, at the time of making this lease, owns a less interest in the leased land than the entire fee simple estate in the oil and gas under the leased land, then the rentals and royalties shall be paid to DISTRICT proportionately to its interest.

18. CONVEYANCE BY DISTRICT. DISTRICT reserves the right and privilege to convey in whole or in part its interest in this lease or in the leased land, or in the oil and/or gas produced from the leased land. If DISTRICT should convey any part of the leased land or any interest in the oil and/or gas under any part of the leased land, LESSEE'S drilling obligations shall not be altered, but LESSEE may continue to operate the leased land and pay and settle rents and royalties as an entirety.

19. TAXES. LESSEE shall promptly pay all taxes, assessments, and governmental charges levied under the laws of any city, county, state, or the United States of America, against LESSEE'S interest in the leased land, against improvements placed on the leased land by LESSEE, and against all oil, gas, and associated hydrocarbon substances produced from the leased land. There shall be no deduction from the royalties payable to DISTRICT by reason of charges levied against LESSEE for the support of the California Division of Oil and

Gas. Notwithstanding the above, any severance tax or windfall profit tax enacted by the California Legislature after January 1, 1985, and applicable to DISTRICT'S royalty share of production, shall be paid by DISTRICT to the extent only of its applicability to DISTRICT'S royalty share.

20. RECORDS - AVAILABILITY AND MAINTENANCE. DISTRICT may examine at all reasonable times the leased land, work done, work in progress, and production. DISTRICT may inspect at any reasonable time the books kept by LESSEE concerning the production from the leased land and any land pooled with the leased land. LESSEE shall permit DISTRICT to inspect the quality and chemical content of any and all oil, gas, and associated hydrocarbon substances extracted from the leased land or from any land pooled with the leased land.

LESSEE, upon written request, shall furnish to DISTRICT copies of all geophysical data covering the leased land and all logs (including electric and computer generated logs), surveys, drilling records, well histories, core records, formation tests, and related and related information measured and recorded in the course of drilling for the wells drilled into the leased land. All data and information supplied in confidence by LESSEE shall be kept confidential by DISTRICT and shall not be disclosed to any person or agency without the written consent of LESSEE or unless their disclosure is required by law.

Notwithstanding the above, DISTRICT may disclose any data or information supplied by LESSEE to any governmental agency needing the data or information to regulate the leased land or nearby land, or to any governmental agency whose assistance DISTRICT seeks in administering this lease. However, such disclosure shall be made pursuant to an agreement with the governmental agency specifying the purposes for which the data and information may be used, and requiring the data and information to be kept confidential. DISTRICT shall inform LESSEE of the data and information that are disclosed, the governmental agency to which they are disclosed, and the purpose of their disclosure.

LESSEE shall keep complete and accurate records of all sales of oil, gas, and associated hydrocarbon substance produced from the leased land, together with records showing the quality and quantity of oil, gas, and associated hydrocarbon substances produced, saved, and sold from the leased land, and their market value. Such records shall be available for inspection and auditing by DISTRICT.

LESSEE shall file with DISTRICT copies of all contracts, certified by LESSEE to be true, for the sale or other disposition of oil, gas, and associated hydrocarbon substances produced from the leased land.

21. TERMINATION BY LESSEE. LESSEE may at any time terminate this lease as to all or any portion of the leased land comprising a ten (10) acre parcel or multiple thereof in a compact form, by delivery to DISTRICT of a Quitclaim Deed for the leased land or the portion thereof for which termination is sought. Upon termination of a portion of the leased premises, LESSEE shall be released from future rental obligations which, assuming the total rent to have been set on a per-acre basis, would accrue to the terminated acreage.

22. OBLIGATIONS UPON TERMINATION. Upon any termination of this lease in whole or in part, LESSEE shall peaceably surrender possession to DISTRICT. Prior to termination, LESSEE shall have properly abandoned all wells, covered all sump holes and excavations

made by it, removed equipment and machinery, and to the fullest extent possible, returned the land to its natural state, all with respect to the lands to which the termination applies. LESSEE'S obligation in paragraphs 8, 9, 19, and 26 shall survive termination.

All well abandonment and equipment removal required before any termination of this lease in whole or in part shall be accomplished prior to commencement of the usual flood season immediately following such termination. The flood season shall be deemed to commence on November 1 and end on April 15 of each year.

23. DEFAULT. This lease shall be terminated as a result of the failure of LESSEE to perform any obligations under this lease, including timely payment of royalties and rents, upon receipt of written notice from DISTRICT demanding performance and failure of LESSEE to comply fully within sixty (60) days, LESSEE may retain all wells which are not in default and are being drilled, In the event of cancellation, the LESSEE shall have the right to retain any wells as to which no default exists, together with the minimum acreage around any such wells needed to comply with the well spacing required by the State and those rights of way on the leased lands that are reasonably necessary to enable the LESSEE to drill and operate any such wells, In the event of any termination of this lease, in whole or in part, the LESSEE shall have a reasonable time to remove any property, equipment, and facilities used by the LESSEE in operations under the terminated portion of this lease.

24. PAYMENTS. All royalties and rents shall be paid to DISTRICT by a valid check made payable to Sacramento and San Joaquin Drainage District acting by and through The Central Valley Flood Protection Board and mailed or delivered to:

Sacramento and San Joaquin Drainage District
acting by and through
The Central Valley Flood Protection Board
c/o Department of Water Resources
1416 Ninth Street, Room 831
Sacramento, California 95814
Attention: Cashier

25. NOTICES. All notices given by either party to the other shall be deemed to have been fully given when made in writing and deposited in the United States mail, certified, postage prepaid, and addressed as follows:

DISTRICT:
Sacramento and San Joaquin Drainage District
acting by and through
The Central Valley Flood Protection Board
c/o Department of Water Resources
1416 Ninth Street, Room 425
Sacramento, California 95814

LESSEE:
Venoco, Inc.
370 17th Street, Suite 3900
Denver, Colorado 80202

26. ASSIGNMENT BY LESSEE. This lease may not be assigned or transferred or the leased land sublet by LESSEE without prior written consent of DISTRICT.

27. **INDEMNIFICATION.** LESSEE shall indemnify, save, hold harmless and defend DISTRICT against all losses, damages, claims, demands, or actions for injury or death of any person or damage to any property, including but not limited to that of DISTRICT, the State of California, and the United States, caused by, arising out of, or connected with the operations of LESSEE, its agents, employees, contractors, or assigns under this lease.

28. **INSURANCE.** Prior to entering upon the leased land, LESSEE shall furnish to DISTRICT a Certificate of Insurance stating that there is liability insurance presently in effect for LESSEE with bodily injury and property damage limits of not less than one million dollars (\$1,000,000) per occurrence. The Certificate of Insurance will provide that:

1. The insurer will not cancel the insured's coverage without at least thirty (30) days prior written notice to DISTRICT.
2. DISTRICT, its officers, agents, employees, and servants are included as additional insureds insofar as the operations under this lease are concerned.
3. DISTRICT will not be responsible for any premiums or assessments on the policy.
4. The insurance shall include comprehensive general liability insurance, including explosion and underground collapse (XUC).
5. The premises included in this lease (referenced by lease number) are covered by this policy.

The insurance shall be in effect at all times during the term of this lease. If the insurance coverage expires at any time during the term of this lease, LESSEE agrees to provide at least thirty (30) days prior to the termination date, a new Certificate of Insurance evidencing insurance coverage as provided herein.

The Certificate of Insurance is subject to the approval of the State Department of General Services. If LESSEE fails to keep in effect at all times the required insurance coverage, DISTRICT, in addition to any other remedies it may have, may terminate this lease.

29. **DISCRIMINATION.** LESSEE agrees that it will not discriminate against any employee or applicant for employment because of race, color, religion, ancestry, or national origin, sex, age, or physical handicap. LESSEE agrees to take affirmative action to ensure that applicants are employed, and that employees are treated fairly during employment, without regard to their race, color, religion, ancestry, national origin, sex, age, or physical handicap (see California Government Code - Sections 12920-12994 for further details).

30. **BOND.** LESSEE shall furnish upon execution of this lease, and maintain until released by DISTRICT after termination of this lease, a bond in favor of the State of California in the sum of five thousand dollars (\$5,000) to guarantee the faithful performance by LESSEE of all the provisions of this lease.

31. **SUCCESSORS AND ASSIGNS.** This lease shall inure to the benefit of and be binding on the successors and assigns of the parties.

32. FORCE MAJEURE. Should LESSEE be prevented from complying with any express or implied covenant of this Lease, from conducting drilling or reworking operations thereon, or from producing oil or gas therefrom by reason of force majeure, then while so prevented, LESSEE'S obligation to comply with such covenant shall be suspended, and suspended, and LESSEE shall not be liable in damages for failure to comply therewith; and this Lease shall be extended while and so long as LESSEE is prevented by any such cause from conducting drilling or reworking operations on or from producing oil or gas from the leased lands or lands pooled therewith; and the time while LESSEE is so prevented shall not be counted against LESSEE, anything in this Lease to the contrary notwithstanding. The term "force majeure," as here employed, shall mean, without limitation, an act of God; strike, lockout, or other industrial disturbance; act of public enemy; war; blockade; public riot; lightning; fire; storm; flood; explosion; governmental action, delay, restraint, or inaction (so long as LESSEE has used due diligence and taken all reasonable and necessary steps to obtain approval); and compliance with governmental orders, rules, statutes, or regulations (so long as LESSEE has used due diligence and taken all reasonable and necessary steps to achieve compliance); unavailability of equipment; and any other cause which is not reasonably within the control of LESSEE.

33. This lease shall become effective only when fully approved and executed on behalf of the State of California including the Department of General Services, if necessary, and a duly executed copy has been delivered to LESSEE. The submission of this Lease by DISTRICT, its agent, or representative for examination by LESSEE does not constitute an option or offer to lease the premises upon the terms and conditions contained herein, or a reservation of the premises in favor of LESSEE. LESSEE'S submission of an executed copy of this Lease to DISTRICT shall merely constitute an offer to DISTRICT to lease the premises on the terms and conditions set forth herein.

IN WITNESS WHEREOF, the parties hereto have executed this Lease as of the date hereafter affixed.

LESSEE:
Venoco, Inc.

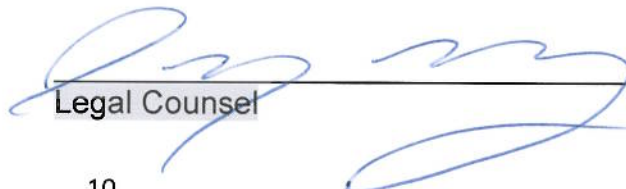
DISTRICT:
Sacramento and San Joaquin Drainage District,
acting by and through The Central Valley Flood
Protection Board

By: President

Date: _____

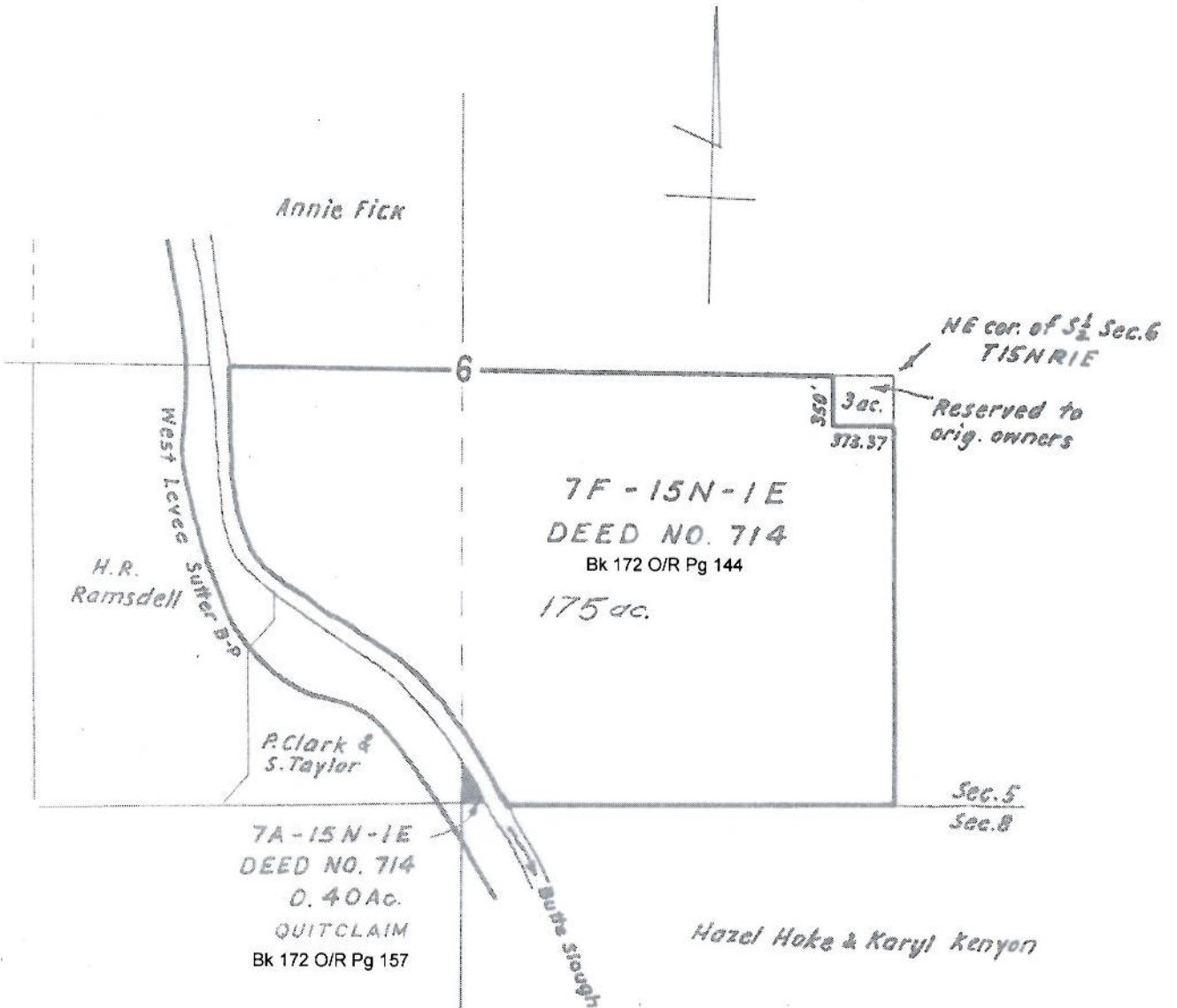
By: Secretary

Approved as to legal form and sufficiency:

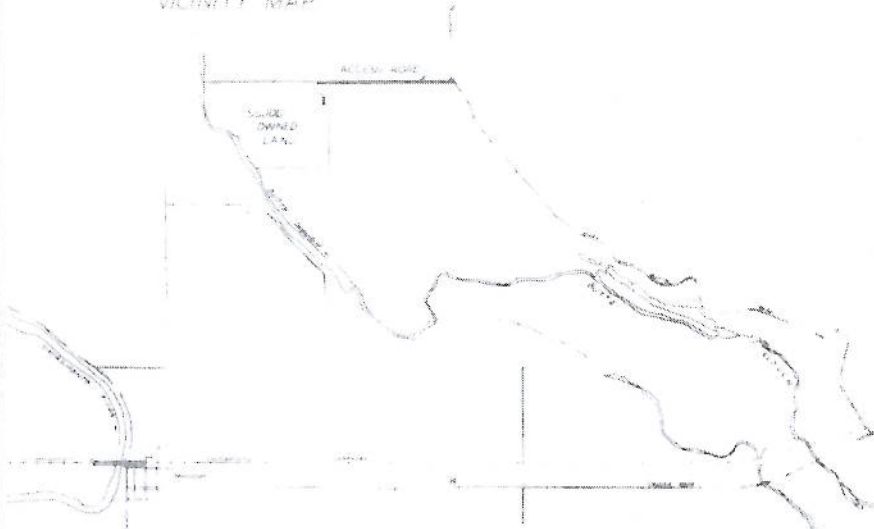


Legal Counsel

Exhibit A



VICINITY MAP



SUTTER CO
RECLAMATION BOARD
W.L. SUTTER BYPASS
PROPERTY ACQUIRED

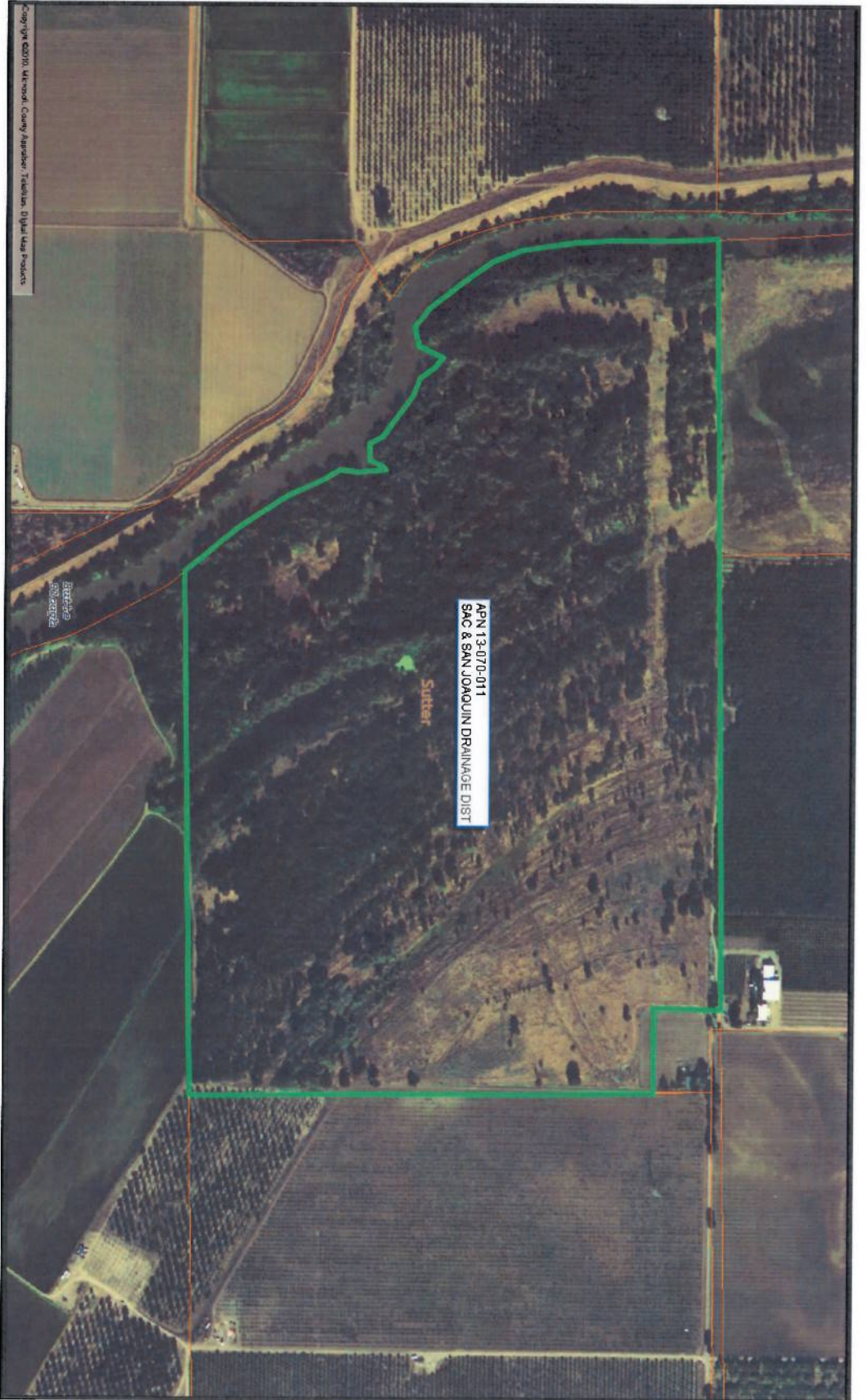
from

MAGGIE WILSON &
KARYL HOKE KENYON

MAP 20-135 Tr. 3-1122

1"=1000'

Sep. 1941



APN 13-070-011
SAC & SAN JOAQUIN DRAINAGE DIST

Sutter

Battle
San Joaquin

Digital Map
Products

S&S JDD DEED 714

APN 013-070-011

500 ft
LandVision

- Image Overlay
Search Results
- Transportation
- Interstates
 - Freeways
 - US Highways
 - State-Local Highways
 - Major Roads
 - Local Roads
 - Alleys / Dead Ends
 - Other Roads
- Railroads
- Railroads
- County
- Counties
- State
- States
- City
- Cities
- PARCELS
- Parcels